

Message Text

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ACTION ARA-20

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SUBJ: INSURANCE AND REINSURANCE--ARGENTINA

REF: (A) STATE A-6374 OF JULY 26, 1973

(B) BUENOS AIRES 8891

1. SUMMARY: LAWS AND REGULATIONS OF THE INSURANCE INDUSTRY IN ARGENTINA AS THEY AFFECT FOREIGN FIRMS ARE STILL IN A STATE OF FLUX. FIRMS IN THE INDUSTRY ARE AWAITING THE OFFICIAL PUBLICATION OF MEASURES WHICH MAY AFFECT THEM GREATLY AND ADVERSELY. NO ACTION REQUIRED. END SUMMARY.

2. THERE HAVE BEEN A NUMBER OF DEVELOPMENTS IN GOVERNMENT REGULATION OF AND ATTITUDES TOWARD THE PRIVATE SECTOR INSURANCE INDUSTRY SINCE THE EMBASSY LAST REPORTED ON THIS SUBJECT IN REF (B). NOT ONLY THE FOREIGN OWNED SECTOR BUT ALSO THE WHOLE OF THE ARGENTINE-OWNED PRIVATE INSURANCE INDUSTRY ACTED DECISIVELY TO OPPOSE THE ULTRANATIONALISTIC SUPERINTENDENT OF INSURANCE WHO SOUGHT, DURING THE LAST MONTHS OF 1973, TO DECLARE THE INSURANCE INDUSTRY A "PUBLIC UTILITY," LIMIT DRASTICALLY THE ACTIVITIES OF PRIVATE FIRMS AND FORCE ALL INSURANCE FIRMS TO RELINQUISH THEIR RESERVES TO A STATE-CONTROLLED "RESERVE FUND." THEIR EFFORTS WERE SUCCESSFUL AND THAT SUPERINTENDENT OF INSURANCE WAS DISMISSED IN EARLY JANUARY. INDUSTRY SOURCES

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BELIEVE THAT THE MOST OBJECTIONABLE OF HIS INITIATIVES WILL NOT

PROSPER IN THE FUTURE.

3. HOWEVER, THIS RELATIVELY FAVORABLE DEVELOPMENT DOES NOT APPEAR TO ALLOW THE FOREIGN FIRMS IN THE INSURANCE INDUSTRY A LONG RESPITE FROM SERIOUS PROBLEMS. THE FIRMS EXPECT TO RECEIVE SHORTLY OFFICIAL NOTICE OF A CIRCULAR PREPARED IN THE SUPERINTENDENCY OF INSURANCE CONFIRMING THAT PROVISIONS IN ARGENTINA'S NEW FOREIGN INVESTMENT LAW, CLASSIFYING AS "NATIONAL FIRMS" ONLY THOSE WHICH HAVE 80 PERCENT OR MORE OF THEIR EQUITY IN THE HANDS OF ARGENTINE NATIONALS, WILL APPLY FULLY TO THE INSURANCE INDUSTRY. THE INSURANCE INDUSTRY PREVIOUSLY HAS BEEN GOVERNED BY REGULATION CLASSIFYING ANY FIRM WITH AS MUCH AS 60 PERCENT ARGENTINE OWNERSHIP AS "NATIONAL FIRMS."

4. THE SUPERINTENDENT OF INSURANCE HAS APPARENTLY DRAFTED REGULATIONS, WHICH HAVE BEEN ANNOUNCED IN THE PRESS BUT HAVE NOT YET BECOME EFFECTIVE, WILL REQUIRE ALL PRIVATE SECTOR INSURANCE FIRMS TO HOLD 50 PERCENT OF THEIR LEGAL RESERVES IN ARGENTINE GOVERNMENT BONDS, REQUIRE THAT AN ADDITIONAL 35 PERCENT BE EITHER IN GOVERNMENT BONDS OR REAL ESTATE AND ALLOW THE COMPANIES TO MAKE FREE DECISIONS CONCERNING ONLY 15 PERCENT OF THEIR RESERVES.

5. NEW FEDERAL TAX MEASURES ARE PENDING BEFORE THE NATIONAL CONGRESS WHICH, IF APPROVED, WILL REQUIRE ALL STOCK COMPANIES IN ARGENTINA TO RECALL ALL BEARER SHARES AND REPLACE THEM WITH NOMINATIVE SHARES. WHEN THESE RULES BECOME EFFECTIVE, MANY INSURANCE FIRMS IN ARGENTINA THAT ARE NOW NOMINALLY "NATIONAL" FIRMS WILL BE CLEARLY REVEALED AS NOT ELIGIBLE FOR SUCH A CLASSIFICATION. THE FOREIGN FIRMS OWNING SUBSTANTIAL PORTIONS OF "ARGENTINE" INSURANCE COMPANIES WILL THEN BE FORCED TO DECIDE WHETHER TO SELL ALL OR A PART OF THEIR EQUITY; TO RETAIN A SMALLER SHARE OF THEIR CURRENT OPERATION, TO ABANDON THIS MARKET, OR FIND NEW WAYS TO CONTINUE OPERATIONS IN ARGENTINA.

6. IN THE CIRCUMSTANCES DESCRIBED ABOVE, THE EMBASSY BELIEVES IT WISE TO POSTPONE A FULL RESPONSE TO REF (A) UNTIL THE SITUATION FOR FOREIGN INSURANCE FIRMS IS MORE STABLE THAN IS THE CASE AT PRESENT.

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